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S E C R E T SECTION 01 OF 03 TEGUCIGALPA 000985

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STATE FOR EB/ESC, WHA/EPSC, WHA/PPC, AND WHA/CEN  
STATE FOR D, E, P, AND WHA  
TREASURY FOR JHOEK  
STATE PASS AID FOR LAC/CAM  
NSC FOR DAN FISK

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TAGS: [EPET](#) [ENRG](#) [PGOV](#) [PREL](#) [PINR](#) [VE](#) [HO](#)

SUBJECT: (S) HONDURAS: USG SHOULD KEEP ZELAYA NERVOUS ABOUT  
CHAVEZ, DESPITE IMPENDING GOH-GOV OIL DEAL

REF: TEGUCIGALPA 972 AND PREVIOUS

Classified By: Classified By: AMB Charles Ford for reasons 1.4 (b) and  
(d).

11. (U) This is an action request. Please see para 6.

12. (S) Summary: In preparation for his June 5 meeting with POTUS, President Jose Manuel Zelaya Rosales is explicitly seeking USG reassurance that we will not object to a GOH deal with Venezuela for oil. Zelaya has on several recent occasions signaled that such a deal is imminent. Pressure groups insist that Zelaya fulfill his campaign pledge to lower gas pump prices. Post assesses that Honduras will likely conclude the deal and that further public U.S. objections would be counter-productive. Instead, Post suggests that the POTUS-Zelaya meeting be used to express the USG's extreme displeasure, but without forcing Zelaya's hand, thus insulating the USG from possible future allegations that it is to blame for any future Zelaya Administration failings.

At the same time, such an approach could generate important leverage for advancing other vital USG interests in Honduras.

Post assesses that Zelaya's zeal for a deal with Venezuela stems from political and fiscal expediency and not from a shared ideology with Chavez. That said, certain senior GOH officials could use such a deal to forge closer ties with Chavez. A suggested POTUS warning to Zelaya that does not challenge his option for making a deal, but leaves him anxious about USG reactions to closer ties to Chavez, could prove a crucial bulwark against the spread of Chavez's influence in the region. End Summary.

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Zelaya Seeks USG Blessing for Deal with Venezuela  
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13. (S) In a May 30 meeting with Ambassador, Honduran President Jose Manuel Zelaya Rosales specifically requested Post seek Washington's views on any deal with the Government of Venezuela for oil. Zelaya is seeking reassurance prior to his meeting with POTUS that Washington will not object if he moves forward with such an arrangement.

14. (S) Post has discussed this issue widely with both public

and private sector actors (reftels). Post assesses that despite Post questioning of the economic and possible political consequences of such an agreement, a GOH-GOV deal is imminent - though the GOH might seek a way to cloak such a deal in more respectable "commercial" terms. Vocal public cautioning by Post about such a deal is rapidly becoming counterproductive. Zelaya has already hinted that possible USG opposition to the deal could "destabilize" his presidency. Thus, if we succeed in de-railing the deal at this point, the GOH could use that effort to decry U.S. meddling in internal affairs, and could then attempt to blame any number of future Zelaya Administration policy failures on the USG. On the other hand, if we fail to reverse the deal we potentially hand a political victory to Chavez and to those in the Zelaya Administration who might be inclined to support his views.

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Why We Should Withhold Our Blessing  
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¶5. (S) As reported reftels, Zelaya is now signaling that a PetroCaribe deal, or something very similar, is very likely. In our view, since the deal cannot likely be stopped, we should use it to extract maximum advantage in other areas of bilateral importance. Zelaya is already quite supportive of USG policies regarding immigration, counter-narcotics, military transformation, and a host of multilateral issues. His administration is lagging, however, in telecommunications reform, civil procedures reform, anticorruption and competition policy reform, and other vital socioeconomic development matters.

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¶6. (S) Action Request: Post suggests that during Zelaya's June 5 meeting, POTUS emphasize USG displeasure at the GOH decision to make such an arrangement with the GOV. A carefully modulated message that does not demand walking away from such a deal, but nevertheless pressures Zelaya, could be effective in encouraging his support for other important USG interests in Honduras. Such a message should also strongly reinforce our continuing requirement for transparency in the process, and fair treatment for U.S. investors (including Texaco and Esso) already operating in Honduras. The USG could also use its privately expressed displeasure at a PetroCaribe deal to encourage Zelaya to take prompt action towards his professed goal of liberalizing the gasoline market in Honduras. Post welcomes any Washington suggestions on how best to assist the GOH in laying the groundwork for such a shift, so that when the current import deal expires (regardless of who wins it), Honduras will be ready to move on to a more transparent and competitive approach.

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Why Zelaya Wants PetroCaribe So Badly...  
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¶7. (C) Honduras continues to suffer economically under the recent high prices in refined petroleum products, especially gasoline. Upward pressure on prices has not yet manifested as inflation, but there are continuing calls for wage hikes, and public discontent over high fuel prices. In a series of ill-considered political moves, the GOH has in some ways worsened the situation in which it finds itself. Recent rhetoric has left the majority of the public with the perception, as evidenced in a May 26 private poll shared with EmbOffs May 31, that the Zelaya administration can lower fuel prices. In addition, a blanket endorsement of the "Notables Commission" left some of the more radical elements leading the debate on energy policy, and a campaign promise to lower pump prices by 10 lempiras (just over USD 0.50) per gallon continues to haunt Zelaya (reftels).

¶8. (C) Fiscal pressures also remain a concern for Zelaya, who has promised subsidies to taxi drivers, offered tax credits

in exchange for price freezes on fuels, called for thousands of new police officers, guaranteed free school enrollment for all students, raised government salaries by over three percent, and allocated up to USD 40 million for a price hedging scheme on fuel imports. Worse, the GOH urgently needs funds to recapitalize state telephone monopoly Hondutel, and to pay over USD 100 million in debts to electricity generators. Other, even more burdensome fiscal obligations, loom just over the horizon: a bailout and restructuring of electricity parastatal ENEE, construction of new electricity generation and transmission assets, and the ever-present demand for significant pay raises for teachers. A recent IMF review of the GOH program failed to reach a conclusion in part due to concerns over a possible oil finance deal with Venezuela.

¶9. (C) The above combination of factors makes a PetroCaribe deal extremely attractive as a political and economic expedient. By financing 40 percent of the cost of fuel imports, Zelaya could free up an estimated USD 300 - 400 million per year. These "savings" could be used to lower fuel prices at the pump, and/or to finance a number of the outlays cited above. Thus, in Post view, there is both a push (energy needs) and a pull (soft financing terms) driving the apparent GOH move towards PetroCaribe. Where PetroCaribe may have originally been seen as a technical fix to fuel price problems, it has now morphed into a perceived solution for the much broader political (read, financial) problems dogging the new administration. It is Post's view that it will be difficult to counter or reverse this dynamic.

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... and No, It's Not Chavez  
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¶10. (C) In Post's opinion, Zelaya is a leader in the old

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"caudillo" (Latin strongman) mold, who prides himself on individualism, decisiveness, and control. He is genuinely interested in producing solutions, but lacks the patience and intellectual curiosity required to analyze policy options first. Thus, his decisiveness can be precipitous, and is often based on his instinctual assessments of short-term political needs. While he is generally credited as a savvy interpersonal politician, Zelaya, after 100 days in office, does not yet appear to us to have adopted the longer-term, broader focus required of a President. This leaves him disconcertingly susceptible to policy advice from his closest advisors, some of whom have markedly left-leaning tendencies. Zelaya routinely consults with these advisors jointly, in closed-door session, long into the night.

¶11. (C) Consequently, Post assesses that Zelaya's populist tendencies as a retail politician, coupled with his urgent need to find quick fixes to complex problems and his reliance on certain left-leaning advisors, largely explain any perceived GOH drift towards Venezuela's President Hugo Chavez. Expediency is driving him towards PetroCaribe, while some of his advisors likely find satisfaction in the concurrent warming of relations with Chavez himself. This new closeness, particularly if it allows Chavez a base from which to launch oil-diplomacy into Central America in a bid to influence regional elections, clearly fits neatly into Chavez's own political agenda. Zelaya is no Chavez, but if left unchanged, circumstances could make him complicit in advancing Chavez's influence in the region.

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